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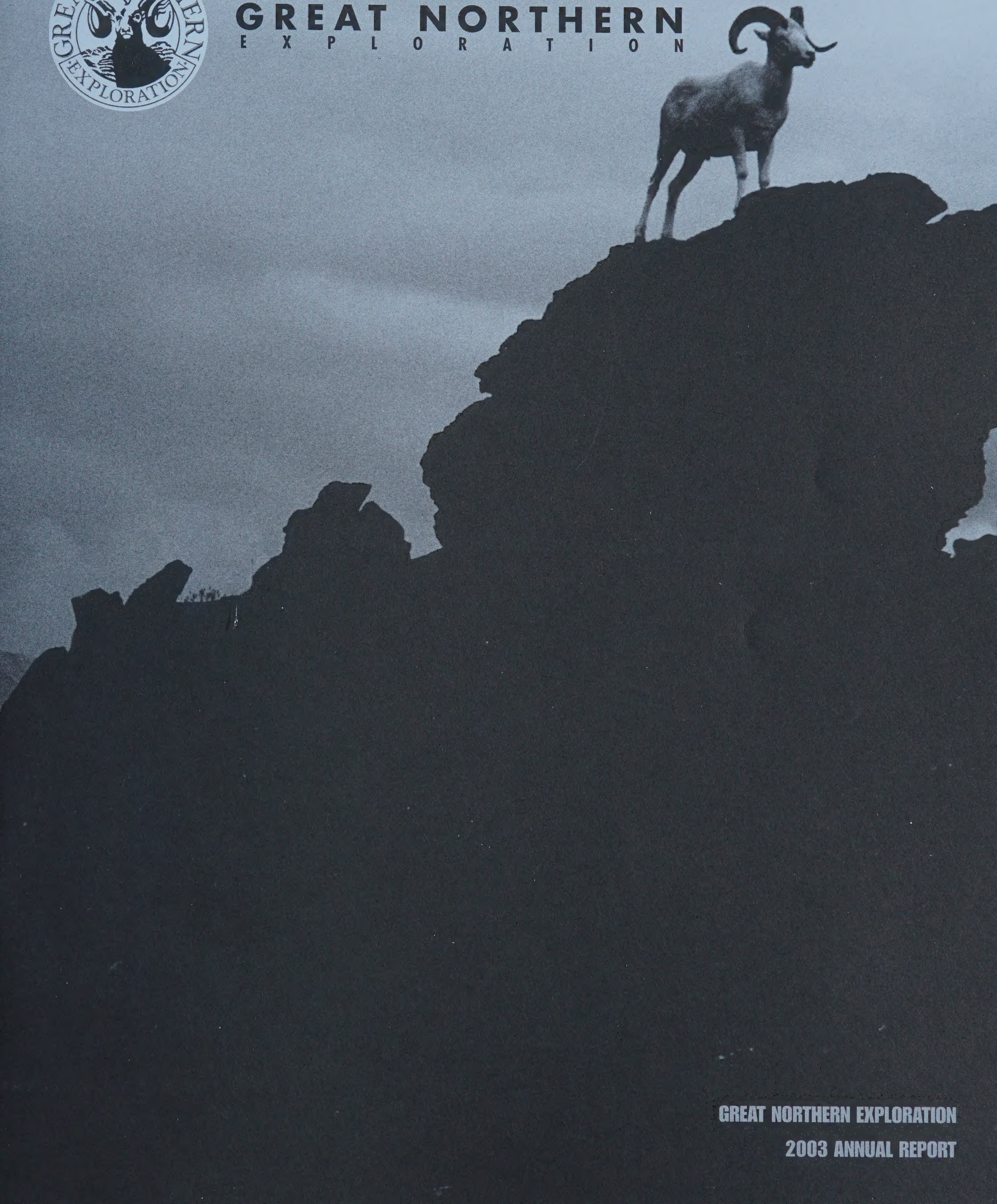
GREAT NORTHERN EXPLORATION



GREAT NORTHERN EXPLORATION

2003 ANNUAL REPORT

2003 OVERVIEW

During 2003, Great Northern continued its growth with two strategic property acquisitions in its focused West Central Alberta core area. Both of these acquisitions enhanced the Company's asset base during 2003 and provided Great Northern with a substantial increase in capital inventory and activity levels. These acquisitions are summarized as follows:

On June 27, Great Northern completed its $37 million acquisition of producing properties in the Innisfail area of West Central Alberta. The acquisition provided Great Northern with 1,200 boe/d (50% natural gas) of production, operatorship and working interest in the extensive infrastructure of this area.

Additionally, in mid July, Great Northern completed its second acquisition of producing properties in West Central Alberta in the Wood River area. This acquisition provided Great Northern with 825 boe/d (75% natural gas) of production, operatorship and working interest in extensive infrastructure in the Wood River area.

The subject transactions were funded with bank debt and two private placements both of which closed in June, the first of 4,000,000 shares at $3.45 per share and the second of 3,750,000 shares at $4.00 per share.

FINANCIAL HIGHLIGHTS

	Three months ended December 31,			Year ended December 31,			
	2003	2002	Change	**2003**	2002	Change	2001*
Financial *(thousands of dollars except share data)*			%			%	
Petroleum and natural gas revenue	**16,842**	5,870	187	**51,317**	12,170	322	–
Cash flow from operations	**9,699**	3,316	192	**29,067**	6,305	361	(193)
Per share - basic **	**0.25**	0.13	92	**0.83**	0.27	207	(0.02)
- diluted **	**0.25**	0.12	108	**0.80**	0.26	208	(0.02)
Net earnings	**2,822**	952	196	**10,505**	1,794	486	(196)
Per share - basic	**0.07**	0.04	75	**0.30**	0.08	275	(0.02)
- diluted	**0.07**	0.03	133	**0.29**	0.07	314	(0.02)
Capital expenditures	**11,590**	5,137	126	**96,880**	13,602	612	3,329
Debt, net				**45,244**	10,189	344	(8,367)
Weighted average shares (thousands)							
Basic	**38,693**	29,336	32	**34,865**	23,024	51	10,541
Diluted	**40,326**	30,442	32	**36,318**	24,016	51	10,541
Shares outstanding (thousands)							
Basic				**39,459**	30,484	29	17,065
Diluted				**42,865**	32,959	30	18,463
Operating *(Units as noted — 6:1 boe conversion)*							
Average daily production							
Natural gas (mmcf/d)	**17.5**	8.5	106	**13.6**	4.3	216	–
Liquids (bbls/d)	**2,282**	645	254	**1,627**	430	278	–
Barrels of oil equivalent (boe/d)	**5,195**	2,061	152	**3,893**	1,155	237	–
Average sales price							
Natural gas ($/mcf)	**6.03**	4.96	22	**6.29**	4.33	45	–
Liquids ($/bbl)	**34.06**	33.62	1	**33.85**	33.76	–	–
Barrel of oil equivalent ($/boe)	**35.24**	30.95	14	**36.11**	28.88	25	–

* *Great Northern Exploration Ltd. was incorporated in August 2001 and commenced active operations in late 2001. Accordingly, minimal operations were recorded for the comparative period in 2001.*

** *Cash flow from operations per share is a non-GAAP term that represents net earnings measures adjusted for non-cash items. The Company evaluates its performance based on net earnings and cash flow from operations. The Company considers cash flow a key measure as it demonstrates the Company's ability to generate cash flow necessary to fund future growth through capital investment and to repay debt.*

CORPORATE

Highlights of our very successful year follow:

- Total proven and proven plus probable reserve growth per share of 74% and 97% respectively; production was replaced 5.6 times on a total proved basis and 8.3 times on a total proved plus probable basis
- Total proved finding and development costs were $12.69 per boe and $9.49 per boe for total proved plus probable including future development costs
- Fourth quarter production averaged 5,195 boe/d, an increase of 5% over the third quarter of 2003 and a 152% increase over the comparable quarter of 2002
- Record cash flow in the fourth quarter of $9.7 million or $0.25 per share, an increase of 9% over the third quarter of 2003 and a 192% increase over the comparable quarter of 2002
- Drilling for the year ended December 31, 2003 resulted in 50 gross (29.5 net) wells drilled with a success rate of 76%
- Great strides were made through exploration discoveries and two significant property acquisitions to continue to focus the Company's asset base in West Central Alberta

PETROLEUM AND NATURAL GAS REVENUE

	Three months ended December 31,		Year ended December 31,		
(thousands of dollars)	**2003**	2002	**2003**	2002	Change %
Natural gas revenue	**9,350**	4,117	**31,432**	8,054	290
Liquids revenue	**7,172**	1,974	**20,483**	3,894	426
Hedging gains (loss)	**(67)**	(368)	**(1,718)**	(133)	(1,192)
Royalty and other	**387**	147	**1,120**	355	215
	16,842	5,870	**51,317**	12,170	322

The Company's production for the fourth quarter averaged 5,195 boe/d, an increase of 5% from the 4,952 boe/d in the third quarter of 2003, and an increase of 152% compared to the fourth quarter of 2002. Natural gas production increased to 17.5 mmcf/d in the fourth quarter from 16.5 mmcf/d in the third quarter. Liquids production increased to 2,282 bbls/d from 2,203 bbls/d in the third quarter. This increase was attributable to a successful drilling program that resulted in an 89% drilling success rate for the six month period ended December 31, 2003. Additionally, production optimization at the Company's two strategic property acquisitions in West Central Alberta contributed to the increase. Production for the twelve months ended December 31, 2003 was 3,893 boe/d comprised of 13.6 mmcf/d of natural gas and 1,627 bbls/d of liquids. Average production volumes on a year-over-year basis in 2003 have increased by 237% when compared to 2002.

Petroleum and natural gas revenue increased by 7% to $16.8 million from the $15.7 million recorded in the third quarter. Strong natural gas prices, combined with increased production, resulted in the increase for the quarter. Year-over-year, revenue increased by 322% as a result of the West Central Alberta property acquisitions, a 25% increase in commodity prices, a successful drilling program and as a result of having the first full year of production following the Ascot Energy acquisition in 2002.

RISK MANAGEMENT

Financial instruments are entered into by the Company to protect the downside prices received on the sale of a portion of its crude oil and natural gas production.

The following contracts were outstanding as at December 31, 2003:

Commodity	*Type*	*Term*	*Volume*	*Price*	*Index*
Natural gas	Fixed	January 2004 - March 2004	6,000 GJ's/d	$6.57/GJ	AECO
Crude oil	Fixed	January 2004 - March 2004	600 bbls/d	US $28.70/bbl	WTI
Crude oil	Fixed	April 2004 - June 2004	600 bbls/d	US $27.50/bbl	WTI
Crude oil	Fixed	July 2004 - September 2004	400 bbls/d	US $28.25/bbl	WTI
Crude oil	Fixed	October 2004 - December 2004	300 bbls/d	US $27.30/bbl	WTI

ROYALTIES

	Three months ended December 31,		Year ended December 31,		
(thousands of dollars)	**2003**	2002	**2003**	2002	Change %
Crown	**2,005**	1,027	**8,005**	1,972	306
Freehold and GORR	**1,002**	156	**2,423**	259	836
Alberta Royalty Tax Credit	**(125)**	(190)	**(500)**	(266)	88
	2,882	993	**9,928**	1,965	405
Percent of total revenue	**17.1%**	16.9%	**19.3%**	16.1%	20
Per boe ($)	**6.03**	5.24	**6.99**	4.66	50

For the three months ended December 31, 2003, royalty expense and royalty rates increased compared to the same quarter of 2002 as a result of increased production (152%) and higher commodity prices (14%). On a per unit basis, royalties have increased reflecting the impact of higher commodity prices.

Royalties on a percent of total revenue basis were negatively impacted by the hedging losses incurred in the year ended December 31, 2003. These losses increased the royalty rate for the year by approximately 0.6 percentage points.

OPERATING EXPENSES

	Three months ended December 31,		Year ended December 31,		
(thousands of dollars)	**2003**	2002	**2003**	2002	Change %
Total operating costs ($000's)	**3,398**	1,082	**9,617**	2,626	266
Percent of total revenue	**20.2%**	18.4%	**18.7%**	21.6%	(13)
Per boe ($)	**7.11**	5.70	**6.77**	6.23	9

Operating costs for the fourth quarter of 2003 increased marginally to $3.4 million from the $3.1 million incurred in the third quarter of 2003 as a result of the 5% increase in production volumes. Unit operating expenses are up slightly from the third quarter of 2003 by 5%. The increase is due to an increase in power costs, chemicals and equipment maintenance that is normally associated with the higher costs of winter operations.

On a per unit basis, operating expenses were 9% higher at $6.77 per boe for 2003 compared to $6.23 per boe during 2002. Operating costs for 2003 included $1.8 million or $1.27 per boe (2000 - $0.4 million or $0.99 per boe) for third party gathering and processing charges.

GENERAL AND ADMINISTRATIVE EXPENSES

	Three months ended December 31,		Year ended December 31,		
(thousands of dollars)	**2003**	2002	**2003**	2002	Change %
General and administrative	**1,107**	545	**2,832**	1,363	108
Overhead recoveries	**(519)**	(173)	**(916)**	(278)	229
Capitalized G & A	**(169)**	(101)	**(553)**	(147)	276
Net	**419**	271	**1,363**	938	45
Percent of total revenue	**2.5%**	4.6%	**2.7%**	7.7%	(65)
Per boe ($)	**0.86**	1.43	**0.96**	2.23	(57)

General and administrative expenses for the fourth quarter were $419 thousand after recoveries and capitalized costs, an increase from $302 thousand in the third quarter of 2003. Gross general and administrative expenses increased in the quarter due to higher employee and consulting costs related to Great Northern's increase in activity. Additionally, reserve evaluation costs due to the new National Instrument 51-101 rules increased costs by approximately $100 thousand in the quarter. The fourth quarter of 2003 also includes $136 thousand associated with the adoption of the amended Stock-Based Compensation regulations.

Overhead recoveries were higher in the fourth quarter due to increased capital activity combined with the acquisition of properties in the second and third quarters which are Company-operated.

FINANCIAL CHARGES

	Three months ended December 31,		Year ended December 31,		
(thousands of dollars)	**2003**	2002	**2003**	2002	Change %
Total financial charges	**444**	136	**1,172**	220	433
Percent of total revenue	**2.6%**	2.3%	**2.3%**	1.8%	27
Per boe ($)	**0.93**	0.72	**0.82**	0.52	58

Compared to the third quarter of 2003, interest expense decreased by $81 thousand due to lower interest rates although the average bank debt was higher. Debt levels increased as a result of the previously mentioned property acquisitions combined with an aggressive capital program during 2003. The West Central Alberta property acquisitions which were completed in the second and third quarters were financed by a combination of bank debt and the two previously described Private Placements for gross proceeds of $28.5 million.

DEPLETION, DEPRECIATION AND SITE RESTORATION

	Three months ended December 31,		Year ended December 31,		
(thousands of dollars)	**2003**	2002	**2003**	2002	Change %
Depletion and depreciation	**4,315**	1,175	**11,527**	2,712	325
Site restoration and abandonment	**271**	–	**494**	136	263
	4,586	1,175	**12,021**	2,848	322
Percent of total revenue	**27.2%**	20.0%	**23.4%**	23.4%	–
Per boe ($)	**9.59**	6.31	**8.46**	6.76	25

Depletion and depreciation expense for the fourth quarter was $4.3 million, marginally higher than the $4.0 million recorded in the third quarter. This increase in depletion expense was attributable to a combination of increased production in the quarter and a 9% increase in the per unit depletion factor. On a unit of production basis, the provision was $9.59 per boe for the fourth quarter, an increase of 9% when compared to $8.81 per boe in the third quarter. This increase reflects the change in reserves attributable largely to the new method of evaluating reserves under National Instrument 51-101.

INCOME AND CAPITAL TAXES

For 2003, capital taxes were $0.3 million which is comprised of the Federal Large Corporations Tax (LCT) and various provincial capital taxes resulting from resource revenue. The LCT increased in the year as compared to 2002 corresponding with the substantial increase in the Company's taxable capital base.

Future income tax expense for the year ended December 31, 2003 was $6.4 million and reflects an effective tax rate of 37%. During 2003, both the Federal and Alberta income tax authorities substantially enacted reductions on income tax rates for the current and future years.

At December 31, 2003 Great Northern had the following tax pools available to shelter future income.

(thousands of dollars)	**2003**
Canadian Exploration Expense	**5,289**
Canadian Development Expense	**18,894**
Canadian Oil and Gas Property Expense	**69,274**
Undepreciated Capital Cost	**33,270**
Other	**4,630**
	131,357

CASH FLOW FROM OPERATIONS AND NET INCOME

(Twelve months ended December 31)	**2003**	2002	Change
Weighted average shares outstanding			
Basic	**34,865**	23,024	51%
Diluted	**36,318**	24,016	51%
Cash flow from operations	**29,067**	6,305	361%
Basic per share	**0.83**	0.27	207%
Diluted per share	**0.80**	0.26	208%
Net earnings	**10,505**	1,794	486%
Basic per share	**0.30**	0.08	275%
Diluted per share	**0.29**	0.07	314%

For the year ended December 31, 2003, cash flow increased 361% to $29.1 million from $6.3 million due primarily to 237% higher sales volumes and to the 25% higher average commodity prices. The weighted average number of shares outstanding increased 51% to 34.9 million shares from 23.0 million shares. Consequently, cash flow per share increased 207% to $0.83, while earnings per share increased 275% from $0.08 to $0.30.

The table below sets out the Company's operating results at a field, cash flow and net income level:

	Three months ended December 31,		Year ended December 31,		
($/boe)	**2003**	2002	**2003**	2002	Change %
Revenue	**35.24**	30.95	**36.11**	28.88	25
Royalties, net	**(6.03)**	(5.24)	**(6.99)**	(4.66)	50
Operating expenses	**(7.11)**	(5.70)	**(6.77)**	(6.23)	9
Field netback	**22.10**	20.01	**22.35**	17.99	24
General and administrative	**(0.59)**	(1.43)	**(0.86)**	(2.23)	(61)
Financial charges	**(0.93)**	(0.72)	**(0.82)**	(0.52)	58
Capital taxes	**(0.28)**	(0.38)	**(0.22)**	(0.28)	(21)
Cash flow netback	**20.30**	17.48	**20.45**	14.96	37
Depletion and depreciation	**(9.59)**	(6.20)	**(8.46)**	(6.76)	25
Future income tax	**(4.51)**	(6.26)	**(4.51)**	(3.95)	14
Stock-based compensation	**(0.28)**	–	**(0.10)**	–	–
Net income	**5.92**	5.02	**7.38**	4.25	74

CAPITAL EXPENDITURES

	Three months ended December 31,		Year ended December 31,		
(thousands of dollars)	**2003**	2002	**2003**	2002	Change %
Land	**366**	513	**1,977**	1,231	61
Property acquisitions (dispositions)	**(59)**	–	**66,081**	–	n/a
Geological and geophysical	**362**	36	**1,618**	412	293
Drilling and completions	**7,244**	2,822	**20,238**	7,585	167
Production facilities	**3,663**	1,766	**6,925**	4,366	59
Other	**14**	–	**41**	8	413
Total	**11,590**	5,137	**96,880**	13,602	615

The Company drilled 50 gross (29.5 net) wells during the year with a 76% success rate. GNL drilled 13 gross (7.9 net) wells during the fourth quarter with a 100% success rate. During the fourth quarter the Company directed its efforts to drilling development wells at Wood River and exploratory targets at Innisfail. Drilling at Wood River resulted in seven gas wells and one oil well, and at Innisfail which resulted in one oil well and one gas well. Facility expenditures were incurred in the fourth quarter on expansion of facilities at Wood River and infrastructure at Innisfail.

LIQUIDITY AND CAPITAL RESOURCES

The capital intensive nature of the Company's activities will create a negative working capital position in quarters with high levels of capital investment. At December 31, 2003, the negative working capital plus the outstanding bank debt is within the Company's credit facility. At December 31, 2003, total net debt (including the working capital deficit) was $45.2 million compared to net debt of $10.2 million at December 31, 2002. For the year ended December 31, 2003, cash flow of $29.1 million, common share equity issuance proceeds of $33.1 million and an increase in net debt of $35 million, was utilized to fund $97.2 million of capital expenditures.

During 2003, the Company issued common shares for Private Placements as follows:

- June 6 - 4,000,000 common shares at $3.45 for gross proceeds of $13.8 million
- June 27 - 3,750,000 common shares at $4.00 for gross proceeds of $15 million
- December 3 - 1,100,000 flow-through common shares at $5.50 for gross proceeds of $6.1 million

At December 31, 2003, the Company had a $60 million demand revolving credit facility with its lender. Subsequent to year end, in conjunction with a $23 million property acquisition in the Company's core area of Innisfail, Great Northern renegotiated its credit facility resulting in an increase in the facility to $70 million.

In February 2004, the Company received gross proceeds of $19.1 million from the issuance of 4,250,000 common shares at a price of $4.50 per share.

As at April 8, 2004, the Company had the following changes to its share capital from that disclosed in note 8 to the audited consolidated financial statements for the year ended December 31, 2003:

- 4,250,000 common share options issued
- 435,375 common share options which were conditionally granted have been cancelled
- 43,750 common share options granted
- 6,250 common share options exercised
- 70,000 common share options cancelled

CONTRACTUAL OBLIGATIONS, COMMITMENTS AND GUARANTEES

Great Northern has assumed various contractual obligations and commitments in the normal course of operations and financing activities. We consider these obligations when assessing cash requirements in the discussion of future liquidity that follows:

CONTRACTUAL OBLIGATIONS

Payments due by Period *($ thousands)*	Less than 1 Year	1 to 3 Years	4 to 5 Years	After 5 Years	Total
Flow-through share obligation (note 1)	5,444	–	–	–	5,444
Long term debt (note 2)	38,555	–	–	–	38,555
Capital lease obligations	–	–	–	–	–
Operating lease obligations (note 3)	306	–	–	–	306
Firm transportation commitments	418	382	43	–	843
Site restoration	–	3	476	7,245	7,724
Total contractual obligations	44,723	385	519	7,245	52,872

1. Additions to property and equipment classified as CEE renounced to shareholders under the flow-through share program.
2. Revolving credit facility with a major Canadian chartered bank. The credit facility bears interest at the bank's prime rate. See note 6 to the audited consolidated financial statements for the year ended December 31, 2003.
3. Operating lease obligations consist of the office lease.

Contractual obligations include both financial and non-financial obligations. Financial obligations represent known future cash payments that Great Northern is required to make under existing contractual arrangements, such as debt and lease arrangements. Non-financial obligations represent contractual obligations to perform specified activities such as work commitments.

In 2002, bank indebtedness was reclassified as a current liability to conform to accounting principles effective January 1, 2002.

Firm transportation commitments relate to agreements that Great Northern has with pipeline companies to send a certain volume of our product through their pipelines.

At December 31, 2003, total future removal and site restoration costs to be accrued over the life of the remaining proved reserves were estimated, net of recoveries, at $7.7 million of which $630 thousand has been provided for on the balance sheet. This estimate is subject to change based on amendments to environmental laws and as new information concerning operations becomes available. The timing of any payments is difficult to determine with certainty and the table has been prepared using best estimates.

OFF-BALANCE SHEET ARRANGEMENTS

There are currently no off-balance sheet arrangements.

TRANSACTIONS WITH RELATED PARTIES

There are no related party transactions not in the normal course of operations requiring disclosure.

SUMMARY OF QUARTERLY RESULTS

2003

($thousands except where noted)	Q1	Q2	Q3	Q4	2003
Production					
Liquids (bbls/d)	881	1,112	2,203	2,282	1,627
Natural gas (mcf/d)	9,501	10,796	16,496	17,478	13,598
Total (boe/d)	2,465	2,921	4,952	5,195	3,893
Average sales price					
Liquids ($/bbl)	37.90	31.40	33.24	34.06	33.85
Natural gas ($/mcf)	6.89	6.75	5.93	6.03	6.29
Barrels of oil equivalent ($/boe)	40.09	37.02	34.55	35.24	36.11
Revenues	8,895	9,840	15,740	16,842	51,317
Cash flow from operations	5,105	5,681	8,582	9,699	29,067
Per share - basic	0.17	0.18	0.23	0.25	0.83
Per share - diluted	0.16	0.17	0.22	0.25	0.80
Net earnings	2,337	2,560	2,786	2,822	10,505
Per share - basic	0.08	0.08	0.07	0.07	0.30
Per share - diluted	0.07	0.08	0.07	0.07	0.29
Capital expenditures	9,015	44,371	31,904	11,938	97,228

2002

($thousands except where noted)	Q1	Q2	Q3	Q4	2002
Production					
Liquids (bbls/d)	223	241	606	645	430
Natural gas (mcf/d)	704	1,372	6,701	8,496	4,346
Total (boe/d)	340	468	1,726	2,061	1,155
Average sales price					
Liquids ($/bbl)	27.87	34.88	35.75	33.62	33.76
Natural gas ($/mcf)	3.41	3.74	3.73	4.96	4.33
Barrels of oil equivalent ($/boe)	25.32	28.88	27.04	30.95	28.88
Revenues	776	1,230	4,294	5,870	12,170
Cash flow from operations	321	583	2,085	3,316	6,305
Per share - basic	0.02	0.05	0.07	0.13	0.27
Per share - diluted	0.02	0.05	0.07	0.12	0.26
Net earnings	97	252	493	952	1,794
Per share - basic	0.01	0.01	0.02	0.04	0.08
Per share - diluted	0.01	0.01	0.02	0.03	0.07
Capital expenditures	3,020	2,005	3,440	5,137	13,602

Factors that have caused variations over the quarters:

- The reverse take-over in July 2002 of Ascot Energy Resources Ltd. added approximately 1,100 boe per day of production and 169,000 net acres of undeveloped land.
- Two key strategic property acquisitions during 2003 substantially contributed to production and revenue growth during the year:
  - On June 27, Great Northern completed its $37 million acquisition of producing properties in the Innisfail area of West Central Alberta. The acquisition provided Great Northern with 1,200 boe/d (50% natural gas) of production, operatorship and working interest in the extensive infrastructure of this area.

    - Additionally, in mid July, Great Northern completed its second acquisition of producing properties in West Central Alberta in the Wood River area. This acquisition provided Great Northern with 825 boe/d (75% natural gas) of production, operatorship and working interest in extensive infrastructure in the Wood River area.
- Production growth subsequent to these acquisitions is the result of the Company's successful exploration, development and exploitation activities.
- Revenue, cash flow and net earnings growth is primarily the result of production growth and commodity price increases. Other factors include depletion and depreciation rates and income tax rates which are influenced by both internal and external elements.

CRITICAL ACCOUNTING ESTIMATES

The significant accounting policies used by Great Northern are disclosed in note 2 to the Company's audited financial statements. Certain accounting policies require that management make appropriate decisions with respect to the formulation of estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. The following discusses such accounting policies and is included in Management's Discussion and Analysis to aid the reader in assessing the critical accounting policies and practices of the Company, and the likelihood of materially different results being reported. Great Northern's Management reviews its estimates regularly. The emergence of new information and changed circumstances may result in actual results or changes to estimated amounts that differ materially from current estimates.

The following assessment of significant accounting policies is not meant to be exhaustive. The Company might realize different results from the application of new accounting standards promulgated, from time to time, by various rule-making bodies.

Proven Oil and Gas Reserves

Under National Instrument 51-101 (NI 51-101), "Proven" reserves are those reserves that can be estimated with a high degree of certainty to be recoverable (it is likely that the actual remaining quantities recovered will exceed the estimated Proven reserves). In accordance with this definition, the level of certainty targeted by the reporting company should result in at least a 90% probability that the quantities actually recovered will equal or exceed the estimated reserves. There was no such consideration of probability under NP 2B. In the case of "Probable" reserves, which are obviously less certain to be recovered than Proven reserves, NI 51-101 states that it must be equally likely that the actual remaining quantities recovered will be greater or less than the sum of the estimated Proven plus Probable reserves. With respect to the consideration of certainty, in order to report reserves as Proven plus Probable, the reporting company must believe that there is at least a 50% probability that the quantities actually recovered will equal or exceed the sum of the estimated Proven plus Probable reserves. The implementation of NI 51-101 has resulted in a more rigorous and uniform standardization of Reserve evaluation.

Proven plus Probable reserves as defined in NI 51-101 are viewed by many industry participants as being comparable to the "Established" reserves definition that was used historically. Under the previous rules, the Established reserves category was generally calculated on the basis that Proven plus half of Probable reserves (as those terms were defined in NP 2B) represented the best estimate at the time. Great Northern believes that its Established reserves reported under NP 2B were calculated on a conservative basis as its estimate of reserves that would ultimately be recovered. As a result, and for comparison purposes, Great Northern has included Established reserves from its December 31, 2002 Reserve Report as the December 31, 2003 opening balances under the Proven Plus Probable reserves category reconciled on a Company interest basis. Similarly, Great Northern has included 50% of Probable reserves from the December 31, 2002 Reserve Report as the opening balances under the Probable reserves category, again reconciled on a Company interest basis.

The oil and gas reserve estimates are made using all available geological and reservoir data as well as historical production data. Estimates are reviewed and revised as appropriate. Revisions occur as a result of changes in prices, costs, fiscal regimes, reservoir performance or a change in the Company's plans. The effect of changes in proven oil and gas reserves on the financial results and position of the Company is described under the heading "Full Cost Accounting for Oil and Gas Activities (Ceiling Test)".

Depletion expense

The Company uses the full cost method of accounting for exploration and development activities. In accordance with this method of accounting, all costs associated with exploration and development are capitalized whether or not the activities funded were successful. The aggregate of net capitalized costs and estimated future development costs, less estimated salvage values, is amortized using the unit-of-production method based on estimated proven oil and gas reserves.

An increase in estimated proven oil and gas reserves would result in a corresponding reduction in depletion expense. A decrease in estimated future development costs would result in a corresponding reduction in depletion expense.

Withheld Costs

Certain costs related to unproven properties may be excluded from costs subject to depletion until proven reserves have been determined or their value is impaired. These properties are reviewed quarterly and any impairment is transferred to the costs being depleted.

Impairment of Property, Plant & Equipment

The Company is required to review the carrying value of all property, plant and equipment, including the carrying value of oil and gas assets, for potential impairment. Impairment is indicated if the carrying value of the long-lived asset or oil and gas asset is not recoverable by the future undiscounted cash flows. If impairment is indicated, the amount by which the carrying value exceeds the estimated fair value of the property, plant and equipment is charged to earnings.

Provision for Site Restoration

The Company is required to provide for future removal and site restoration costs. The Company must estimate these costs in accordance with existing laws, contracts or other policies. These estimated costs are charged to earnings and the appropriate liability account over the expected service life of the asset. When the future removal and site restoration costs cannot be reasonably determined, a contingent liability may exist. Contingent liabilities are charged to earnings when management is able to determine the amount and the likelihood of the future obligation.

Legal, Environmental Remediation and Other Contingent Matters

The Company is required to determine whether a loss is probable based on judgment and interpretation of laws and regulations and whether the loss can reasonably be estimated. When the loss is determined, it is charged to earnings. The Company's management must continually monitor known and potential contingent matters and make appropriate provisions by charges to earnings when warranted by circumstance.

Income Tax Accounting

The determination of the Company's income and other tax liabilities requires interpretation of complex laws and regulations often involving multiple jurisdictions. All tax filings are subject to audit and potential reassessment after the lapse of considerable time. Accordingly, the actual income tax liability may differ significantly from that estimated and recorded by management.

NEW ACCOUNTING STANDARDS

The Canadian Institute of Chartered Accountants ("CICA") has implemented several changes to accounting standards over the past year. A summary of the changes and the year of adoption by the Company is outlined below.

Accounting Policy adopted in 2003.

In September 2003, the CICA amended Handbook Section 3870 - "Stock-based Compensation and Other Stock-based Payments". Pursuant to new transitional rules approved by the CICA, the Company early adopted the amended standard on a prospective basis and now records stock-based compensation expense in the Consolidated Statement of Operations for all common share options granted to employees and directors on or after January 1, 2003. As a result of adopting this amended standard, net earnings for the year ended December 31, 2003 decreased by $136 thousand and contributed surplus increased by an equal amount.

Common share options granted prior to January 1, 2003 do not result in a compensation expense and the Company continues to disclose the proforma earnings impact of related stock-based compensation expense for these options.

Accounting Policies to be adopted in 2004:

A) CAPITAL ASSETS

In September 2003, the CICA issued a revised guideline for full cost oil and gas accounting. This guideline modifies the existing ceiling test calculation. Under the new guideline, oil and gas assets are evaluated in each reporting period to determine that the costs are recoverable and do not exceed the fair value of the properties. The costs are assessed to be recoverable if the sum of the undiscounted cash flows expected from the production of proved reserves and the lower of cost and market of unproved properties exceed the carrying value of the oil and gas assets. If the carrying value of the oil and gas assets is not assessed to be recoverable, an impairment loss is recognized to the extent that the carrying value exceeds the sum of the discounted cash flows expected from the production of proved and probable reserves and the lower of cost and market of unproved properties. The cash flows are estimated using future product prices as quoted by third parties. Future cash flows are calculated before interest expense, general and administrative expenses and taxes. The discount rate is the Company's risk-free rate.

Prior to January 1, 2004, the ceiling test used an undiscounted estimate of future net revenues from the production of proved reserves using period-end prices and costs, plus the lower of cost or market of undeveloped lands, less estimated future costs for general and administrative expenses, financial charges and taxes.

B) ASSET RETIREMENT OBLIGATIONS

In March 2003, the CICA issued a new standard with respect to asset retirement obligations. The new standard is effective for fiscal years beginning on or after January 1, 2004. The new standard requires companies to recognize the liability associated with future site reclamation costs in the financial statements at the time when the liability is incurred. Asset retirement obligations are initially measured at fair value and subsequently adjusted for the accretion of discount any for changes to the underlying cash flows. This fair value is capitalized as part of the related asset and depleted using the unit of production method.

Prior to 2004, the estimated future site restoration costs were provided for over the life of the proved reserves on a unit of production basis.

The Company will comply with the standard in 2004

c) Hedging Activities

The CICA has issued a new guideline effective January 1, 2004 for all new financial instruments entered into. The guideline addresses the identification, designation, documentation and effectiveness of hedging transactions for the purposes of applying hedge accounting. Under the new guideline, hedging transactions must be documented and the Company must demonstrate that the hedges are sufficiently effective in order to continue hedge accounting.

NEW ACCOUNTING STANDARDS FOR 2004

The following new and amended standards are expected to impact Great Northern in 2004 as follows:

Accounting For Derivative Instruments and Hedging Activities

In December 2001, the CICA issued Accounting Guideline, "Hedging Relationships", that deals with the identification, designation, documentation and measurement of effectiveness of hedging relationships for the purposes of applying hedge accounting. The guideline is effective for fiscal years beginning on or after July 1, 2003. The Company will assess the impact of the guideline should the Company decide to enter into hedging arrangements in fiscal 2004.

Continuous Disclosure Obligations

Effective March 31, 2004, the Company and all reporting issuers in Canada will be subject to new disclosure requirements as per National Instrument 51-102 "Continuous Disclosure Obligations" (NI 51-102). This new instrument is effective for fiscal years beginning on or after January 1, 2004. The instrument proposes shorter reporting periods for filing of annual and interim financial statements, MD&A and the Annual Information Form ("AIF"). The instrument also proposes enhanced disclosure in the annual and interim financial statements, MD&A and AIF. Under this new instrument, it will no longer be mandatory for the Great Northern to mail annual and interim financial statements and MD&A to shareholders, but rather these documents will be provided on an "as requested" basis.

RISK MANAGEMENT

The Company is involved in the exploration, development and production of petroleum and natural gas in the western Canadian Sedimentary Basin. These activities involve a number of risks and uncertainties inherent in the industry. Great Northern's external business risks arise from the uncertainty of petroleum and natural gas pricing, the uncertainty of interest and exchange rates, environmental, safety and regulatory issues.

Inherent in exploration and development are the risks of drilling dry holes, encountering drilling or production difficulties or experiencing high decline rates in producing wells. These risks are mitigated in a number of ways. The Company employs a team of highly qualified and experienced professionals to pursue exploration and development activities. Geological, geophysical, engineering, environmental and economic analyses are performed on prospects to ensure acceptable rates of return and risk for the Company. In addition, the Company uses prudent safety programs.

Being a commodity-based industry, the Company's financial results can be significantly affected by the prices received for petroleum and natural gas as these commodity prices fluctuate in response to external market conditions. The Company maintains a risk management program that fixes the prices of petroleum and natural gas on a percentage of the total expected production volume. This program was under the direction of the Company's Board of Directors. Great Northern is exposed to changes in interest rates as the Company's banking facilities are based on the banker's prime lending rate and short-term banker's acceptance rates.

The Company takes a proactive approach with all provincial and federal environmental and safety regulations as well as carrying appropriate insurance to cover the risks associated with its operation in the field. Changes in regulatory standards can add to the cost of doing business.

MANAGEMENT'S REPORT TO THE SHAREHOLDERS

The accompanying consolidated financial statements of Great Northern Exploration Ltd. are the responsibility of management. The financial and operating information presented in this Annual Report is consistent with that shown in the consolidated financial statements.

The consolidated financial statements have been prepared by management in accordance with the accounting policies disclosed in the notes to the financial statements and in accordance with generally accepted accounting principles in Canada. When necessary, management has made informed judgement and estimates in accounting for transactions which were not complete at the balance sheet date.

Management maintains appropriate systems of internal controls. Policies and procedures are designed to give reasonable assurance that transactions are properly authorized, assets are safeguarded and financial records are properly maintained to provide reliable information for the preparation of financial statements.

External auditors appointed by the shareholders have conducted an independent examination of the corporate and accounting records in order to express their opinion on the financial statements. The Audit Committee has met with the external auditors and management in order to determine if management has fulfilled its responsibilities in the preparation of the financial statements. The Board of Directors has approved the financial statements on the recommendation of the Audit Committee.

Claude M. Saunders, P. Eng.
President & Chief Executive Officer

Jerry M. Sapieha, C.A.
Vice President, Finance & Chief Financial Officer

March 10, [illegible]

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Great Northern Exploration Ltd. as at December 31, 2003 and 2002 and the consolidated statements of operations and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2003 and 2002 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Calgary, Canada

March 17, 2004

CONSOLIDATED BALANCE SHEET

As at December 31,		2003	2002
		$	$
ASSETS			
Current assets			
Accounts receivable		12,456,000	5,192,000
Prepaid expenses		609,000	382,000
		13,065,000	5,574,000
Property and equipment	*(note 5)*	120,491,000	34,789,000
		133,556,000	40,363,000
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable		19,754,000	10,656,000
Bank debt	*(note 6)*	38,555,000	5,107,000
		58,309,000	15,763,000
Future income taxes	*(note 11)*	8,097,000	–
Future site restoration	*(note 7)*	630,000	136,000
		67,036,000	15,899,000
Shareholders' equity			
Share capital	*(note 8)*	54,281,000	22,866,000
Contributed surplus	*(note 3)*	136,000	–
Retained earnings		12,103,000	1,598,000
		66,520,000	24,464,000
Subsequent events	*(note 14)*	133,556,000	40,363,000

On behalf of the Board of Directors:

James M. Saunders
Director

Warren Steckley
Director

(See accompanying notes to the consolidated financial statements)

CONSOLIDATED STATEMENT OF OPERATIONS AND RETAINED EARNINGS

Year ended December 31,		2003	2002
		$	$
Revenue			
Petroleum and natural gas sales		51,317,000	12,170,000
Royalties, net		(9,928,000)	(1,965,000)
		41,389,000	10,205,000
Expenses			
Operating		9,617,000	2,626,000
General and administrative		1,363,000	938,000
Financial charges		1,172,000	220,000
Depletion and depreciation		12,021,000	2,848,000
		24,173,000	6,632,000
Earnings before taxes		17,216,000	3,573,000
Capital taxes		306,000	116,000
Future income taxes	*(note 11)*	6,405,000	1,663,000
		6,711,000	1,779,000
Net earnings		10,505,000	1,794,000
Retained earnings (deficit), beginning of year		1,598,000	(196,000)
Retained earnings, end of year		12,103,000	1,598,000
Net earnings per share			
Basic		0.30	0.08
Diluted		0.29	0.07

(See accompanying notes to the consolidated financial statements)

CONSOLIDATED STATEMENT OF CASH FLOW

Year ended December 31,		2003	2002
		$	$
Cash flow related to the following activities			
Operating			
Net earnings for the period		10,505,000	1,794,000
Items not affecting cash:			
Depletion and depreciation		12,021,000	2,848,000
Stock-based compensation	*(note 3)*	136,000	–
Future income taxes		6,405,000	1,663,000
Cash flow from operations		29,067,000	6,305,000
Changes in non-cash operating working capital items		3,717,000	(706,000)
		32,784,000	5,599,000
Financing			
Change in bank debt		33,448,000	(8,888,000)
Share issuance, net		33,106,000	4,276,000
		66,554,000	(4,612,000)
Cash available for investment activities		99,338,000	987,000
Investing			
Property and equipment additions		(96,880,000)	(13,602,000)
Site restoration expenditures		(348,000)	–
Changes in non-cash investing working capital items		(2,110,000)	4,401,000
		(99,338,000)	(9,201,000)
Change in cash		–	(8,214,000)
Cash, beginning of year		–	8,214,000
Cash, end of year		–	–

(See accompanying notes to the consolidated financial statements)

YEAR ENDED DECEMBER 31, 2003

(tabular amounts in thousands of dollars, unless otherwise stated)

1. NATURE OF OPERATIONS

The shareholders of Great Northern Exploration Ltd. ("the Company"), approved a name change from Ascot Energy Resources Ltd. ("Ascot") and a share consolidation on the basis of one new share for every five existing common shares at the Annual and Special Meeting held on September 26, 2002. All share data including number of common shares outstanding, per share data and stock options outstanding have been adjusted to reflect the share consolidation.

On July 10, 2002, the Company acquired all the shares of Great Northern Exploration Ltd. ("Great Northern"), a private corporation. Great Northern was incorporated on August 9, 2001 and commenced active operations in September 2001.

The transaction has been accounted for as a reverse takeover of the Company by Great Northern. Accordingly, the results of operations for 2002 include those of Great Northern from the date of incorporation and those of the Company from the date of the acquisition to December 31, 2002.

The Company is engaged primarily in the exploration for and development and production of petroleum and natural gas in Western Canada.

2. SIGNIFICANT ACCOUNTING POLICIES

a) Basis of Presentation

The consolidated financial statements include the accounts of Great Northern Exploration Ltd. (the "Company") and its wholly-owned subsidiaries.

The Company's financial statements have been prepared in accordance with Canadian generally accepted accounting principles and reflect the following policies:

b) Petroleum and Natural Gas Operations

I) CAPITALIZED COSTS

The Company follows the full cost method of accounting for petroleum and natural gas operations whereby all costs of exploring for and developing oil and gas properties and related reserves are capitalized into a single Canadian cost center. Costs include land acquisition costs, geological and geophysical expenditures, costs of drilling both productive and non-productive wells, well equipment and certain other overhead expenditures related to exploration.

Gains or losses on the sale or disposition of oil and gas properties are not ordinarily recognized except under circumstances which result in a significant revision of depletion rates.

II) DEPLETION AND DEPRECIATION

Petroleum and natural gas properties and related equipment, excluding undeveloped properties, are depleted and depreciated using the unit-of-production method based on estimated gross proved reserves. For purposes of this calculation, petroleum and natural gas reserves are converted at the energy equivalent conversion rate of six thousand cubic feet of natural gas to one barrel of crude oil. In determining its depletion base, the Company includes estimated future costs to be incurred in developing proved reserves and excludes salvage values and the cost of unproved properties. Costs of acquiring and evaluating unproved properties are excluded from the depletion base until it is determined whether proved reserves are attributable to the properties or impairment occurs.

III) Ceiling Test

In applying the full-cost method, the Company calculates a "ceiling test" to capitalized costs to ensure that such costs do not exceed future net revenues from estimated production of proven reserves, using prices and costs in effect at the Company's year end, less administrative, financing, site restoration and abandonment, and income tax expenses, plus the costs of unproven properties. Any reduction in value as a result of the ceiling test is charged to operations as an element of depletion and depreciation expense. Undeveloped land is evaluated for impairment at each balance sheet date.

c) Joint Ventures

Substantially all of the Company's exploration and development activities are conducted jointly with others and, accordingly, the financial statements reflect only the Company's proportionate interest in such activities.

d) Flow-through Shares

The Company from time to time issues flow-through shares. Under these financing agreements, shares are issued at a fixed price with the resultant proceeds used to fund exploration and development work within a defined time period. The exploration and development expenditures funded by flow-through arrangements are renounced to investors in accordance with the appropriate tax legislation. A future tax liability is recorded and share capital is reduced by the estimated tax benefits transferred to shareholders.

e) Future Site Restoration and Abandonment Costs

Estimated future costs relating to site restoration and abandonment of petroleum and natural gas properties and related facilities are accrued on a unit of production basis over the estimated life of the proved reserves. Costs are based on engineering estimates, net of expected recoveries, based upon current prices and in accordance with current legislation, technology and industry standards.

f) Future Income Taxes

Income taxes are calculated using the liability method of tax allocation. Temporary differences arising from the difference between the tax basis of an asset or liability and its carrying amount on the balance sheet are used to calculate future income tax liabilities or assets. The effect on future income tax liabilities or assets of a change in tax rates is recognized in net income in the period in which the change occurs.

g) Stock-Based Compensation Plan

The Company has a stock-based compensation plan which is described in note 9. As of January 1, 2003, the Company adopted a new accounting standard on stock-based compensation. Stock option expense is recorded as general and administrative expense for all options granted on or after January 1, 2003, with a corresponding increase recorded to contributed surplus. The expense related to options issued during 2002 is disclosed as proforma information in note 9.

The fair value of options granted are estimated at the date of the grant using the Black-Scholes valuation model. Upon the exercise of the stock options, consideration paid by employees or directors together with the amount previously recognized in contributed surplus, is credited to share capital.

h) Per Share Amounts

Per share amounts are calculated on the basis of the weighted average number of common shares outstanding during the period.

The treasury stock method of calculating diluted per share amounts is used whereby any proceeds from the exercise of stock options or other dilutive instruments are assumed to be used to purchase common shares at the average market price during the period.

i) Revenue Recognition

Petroleum and natural as sales are recognized as revenue at the time the respective commodities are delivered to purchasers.

j) Financial Instruments

Settlement of crude oil and natural gas swap agreements, which have been arranged as a hedge against commodity price, are reflected in revenues at the time of sale of the related hedged production.

k) Measurement Uncertainty

The amount recorded for depletion and depreciation of property and equipment, the provision for site restoration costs and the ceiling test calculation are based upon estimates of gross proved reserves, production rates, crude oil and natural gas prices, future costs and other relevant assumptions. By their nature, these estimates are subject to measurement uncertainty, and the impact on the financial statements of future periods could be material.

3. CHANGE IN ACCOUNTING POLICY

Stock-Based Compensation Plan

In September 2003, the Canadian Institute of Chartered Accountants ("CICA") amended Handbook Section 3870 - "Stock-based Compensation and Other Stock-based Payments". Pursuant to new transitional rules approved by the CICA, the Company early adopted the amended standard on a prospective basis and now records stock-based compensation expense in the Consolidated Statement of Operations for all common share options granted to employees and directors on or after January 1, 2003. As a result of adopting this amended standard, net earnings for the year ended December 31, 2003 decreased by $136 thousand and contributed surplus increased by an equal amount.

Common share options granted prior to January 1, 2003 do not result in a compensation expense and the Company continues to disclose the proforma earnings impact of related stock-based compensation expense for these options (note 9).

4. BUSINESS COMBINATION

On July 10, 2002, the business transaction between Ascot and Great Northern was formally approved. This reverse takeover by Great Northern of Ascot resulted in Ascot issuing 6.5 common shares for each 1 share of Great Northern in which there were 14,052,000 Great Northern common shares issued and outstanding. Total shares issued pursuant to the business transaction were 91,338,000 or 18,267,600 common shares after the above mentioned share consolidation.

The Company acquired all of the shares of Great Northern and has accounted for the transaction as an acquisition of the Company by Great Northern.

Net assets acquired	$
Property and equipment	20,573
Working capital	626
Future income tax asset	3,215
Long-term debt	(13,995)
Transaction costs	(2,167)
Purchase price - common share equity value	8,252

5. PROPERTY, PLANT AND EQUIPMENT

2003	Cost	Accumulated Depletion and Depreciation	Net Book Value
	$	$	$
Petroleum and natural gas properties	134,644	14,219	120,425
Office equipment	88	22	66
	134,732	14,241	120,491

2002	Cost	Accumulated Depletion and Depreciation	Net Book Value
	$	$	$
Petroleum and natural gas properties	37,457	2,702	34,755
Office equipment	47	13	34
	37,504	2,715	34,789

The Company has capitalized, as part of petroleum and natural gas properties, indirect exploration overhead relating to property acquisition, exploration and development activities of $553 thousand for the year ended December 31, 2003 (2002 - $147 thousand).

Undeveloped land costs of $9.4 million (2002 - $6.0 million) have been excluded from the amount subject to depletion and depreciation.

6. CREDIT FACILITIES

	2003	2002
	$	$
Prime rate advances	8,555	107
Bankers' acceptances	30,000	5,000
	38,555	5,107

Subsequent to December 31, 2003, the Company amended its demand revolving credit facility to a maximum of $70 million. The credit facility bears interest at the lenders' prime rate or at the Bankers' Acceptance rate plus a stamping fee of 1.25%. The $70 million borrowing base is subject to a semi-annual and annual review by the lender. The credit facility is secured by a first fixed and floating charge debenture in the amount of $100 million covering all the Company's assets.

7. SITE RESTORATION AND ABANDONMENTS

At December 31, 2003, total future removal and site restoration costs to be accrued over the life of the remaining proved reserves were estimated, net of recoveries, at $7.7 million (2002 - $2.1 million) of which $630 thousand (2002 - $136 thousand) has been accrued. This estimate is subject to change based on amendments to environmental laws and as new information concerning operations becomes available.

8. SHARE CAPITAL

a) Authorized

Unlimited number of common voting shares

Unlimited number of preferred shares, issuable in series

b) Issued

	Number of Shares	Amount
		$
Balance, December 31, 2001	17,065,100	11,890
Issued for cash	1,202,500	550
Acquisition of Ascot Energy Resources Ltd.	10,726,182	8,252
Exercise of stock options	110,500	85
Flow-through shares issued	1,379,400	4,000
Tax benefit renounced to shareholders	–	(1,705)
Share issue costs, net of tax effect	–	(206)
Balance, December 31, 2002	30,483,682	22,866
Issued on private placement	4,000,000	13,800
Issued on private placement	3,750,000	15,000
Exercise of stock options	125,000	142
Flow-through shares issued	1,100,000	6,050
Tax benefit renounced to shareholders	–	(2,456)
Share issue costs, net of future tax	–	(1,121)
Balance, December 31, 2003	**39,458,682**	**54,281**

In December 2003, 1,100,000 flow-through common shares were issued at a price of $5.50 per share for gross proceeds of $6.1 million. Under the terms of the flow-through agreement, the Company is required to expend $6.1 million on qualifying crude oil and natural gas expenditures prior to December 31, 2004. As at December 31, 2003, the Company had incurred qualifying expenditures in the amount of $0.6 million.

9. STOCK-BASED COMPENSATION

The Company has implemented a Stock Option Plan for directors and employees. Options under the Plan vest over a four year period with 25% vesting upon each anniversary date of the grant. As of December 31, 2003, there were 3,001,250 common shares reserved for issuance to eligible participants. At December 31, 2003, 3,405,875 (2002 - 2,474,875) options with exercise prices between $0.77 and $4.55 were outstanding and exercisable at various dates to December 11, 2008. The exercise price of each option equals the market price of the Company's common shares on the date of the grant.

The following tables summarize the information about the share options as at December 31:

Fixed Options	2003 Shares	2003 Weighted average exercise price	2002 Shares	2002 Weighted average exercise price
Outstanding at beginning of year	2,474,875	$1.36	1,397,500	$0.77
Granted	1,268,875	$3.80	1,200,875	$1.99
Exercised	(125,000)	$1.15	(110,500)	$0.77
Cancelled	(212,875)	$2.23	(13,000)	$0.77
Outstanding at end of year	3,405,875	$2.22	2,474,875	$1.36
Options exercisable at year end	637,000	$1.01	232,375	$0.77

	Options outstanding			Options exercisable	
Range of exercise prices	Number outstanding at December 31, 2003	Weighted average remaining contractual life (years)	Weighted average exercise price	Number exercisable at December 31, 2003	Weighted average exercise price
$ 0.77 - $ 1.50	1,192,750	7.9	$ 0.77	497,250	$ 0.77
$ 1.85 - $ 2.20	975,225	8.5	$ 2.01	139,750	$ 1.87
$ 2.63 - $ 3.95	564,275	9.1	$ 3.27	–	$ –
$ 4.00 - $ 4.55	673,625	8.8	$ 4.22	–	$ –
	3,405,875		$ 2.22	637,000	$ 1.01

For options granted to employees from January 1, 2002 to December 31, 2002, the Company follows the settlement method of accounting. Since all options were granted with an exercise price equal to the market price at the date of the grant, no compensation cost has been charged to income at the time of the 2002 option grants. Had compensation cost for the Company's stock options been determined based on the fair market value at the grant dates of the awards, the Company's net earnings and net earnings per share for the year ended December 31, 2002 would have been the pro forma amounts indicated following:

	2003	2002
	$	$
Net earnings		
As reported	**10,505**	1,794
Pro forma	**10,345**	1,750
Net earnings per common share - basic		
As reported	**0.30**	0.08
Pro forma	**0.30**	0.08
Net earnings per common share - diluted		
As reported	**0.29**	0.07
Pro forma	**0.28**	0.07

For options granted after January 1, 2003, the Company follows the fair value method (note 3).

The weighted average fair market value of options granted in the year ended December 31, 2003 are $1.39 per option. The fair market of each option granted was estimated on the date of grant using the Modified Black-Scholes option-pricing model with the following assumptions:

	2003	2002
Risk-free interest rate	4.50%	4.00%
Estimated hold period prior to exercise (years)	5	4
Volatility in the price of the Company's common shares	38%	44%
Dividend per share	$0.00	$0.00

10. PER SHARE AMOUNTS

Basic per share amounts are calculated using the weighted average number of shares outstanding during the year.

In the calculation of diluted per share amounts, options under the stock option plan are assumed to have been converted or exercised on the later of the beginning of the year and the date granted. The treasury stock method assumes that proceeds received from the exercise of in-the-money stock options are used to repurchase common shares at the average market rate.

	2003	2002
Weighted average shares outstanding (thousands)		
Basic	34,865	23,024
Diluted	36,318	24,016

11. INCOME TAXES

The provision for income tax differs from the result which would be obtained by applying the combined Federal and Provincial statutory income tax rates to income before taxes. This difference results from the following:

	2003	2002
	$	$
Earnings (loss) before taxes	17,216	3,573
Statutory income tax rate	40.6%	42.8%
Expected income tax	6,990	1,529
Increase (decrease) resulting from:		
Non-deductible crown charges	2,769	760
Resource allowance	(3,044)	(597)
Statutory rate adjustment	(310)	(224)
Other	–	23
Change in valuation allowance	–	172
Provision for taxes	6,405	1,663

The future income tax liability is comprised of temporary differences related to the following:

	2003	2002
	$	$
Property and equipment	(9,572)	(928)
Statutory tax rate adjustment	339	286
Future site restoration	201	44
Share issue	759	313
Non-capital losses	946	827
Valuation allowance	(770)	(542)
Future income taxes	8,097	–

12. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in non-cash working capital:

	2003	2002
	$	$
Accounts receivable	(7,264)	(3,187)
Prepaid expenses	(227)	509
Accounts payable	9,098	6,373
Changes in non-cash working capital	1,607	3,695
These changes relate to the following activities:		
Operating activities	3,717	(706)
Investing activities	(2,110)	4,401
	1,607	3,695

Amounts paid during the year relating to interest expense and capital taxes are as follows:

	2003	2002
	$	$
Interest paid in the year	1,204	220
Capital taxes paid in the year	210	–
	1,414	220

13. FINANCIAL INSTRUMENTS

The Company is exposed to fluctuations in commodity prices, interest rates and Canada/U.S. exchange rates. The Company, when appropriate, utilizes financial instruments to manage its exposure to these risks.

a) Commodity Price Risk Management

Financial instruments are entered into by the Company to protect the downside prices received on the sale of a portion of its crude oil and natural gas production. The agreements entered into are forward transactions providing the Company with a range of fixed prices on the commodities sold. Petroleum and natural gas revenue for the year ended December 31, 2003 include losses of $1.7 million (2002 - $133 thousand loss) on those transactions.

The following contracts were outstanding as at December 31, 2003:

Commodity	*Type*	*Term*	*Volume*	*Price*	*Index*
Natural gas	Fixed	January 2004 - March 2004	6,000 GJ's/d	$6.57/GJ	AECO
Crude oil	Fixed	January 2004 - March 2004	600 bbls/d	US $28.70/bbl	WTI
Crude oil	Fixed	April 2004 - June 2004	600 bbls/d	US $27.50/bbl	WTI
Crude oil	Fixed	July 2004 - September 2004	400 bbls/d	US $28.25/bbl	WTI
Crude oil	Fixed	October 2004 - December 2004	300 bbls/d	US $27.30/bbl	WTI

The estimated fair value at December 31, 2003 of these transactions, had the contracts been settled at that time, would be a loss of $487 thousand.

b) Credit Risk Management

The Company has estimated that the fair value of its financial instruments, which include accounts receivable, accounts payable and accrued liabilities, and long-term debt, approximate their carrying values.

The majority of the Company's accounts receivable are with other companies in the oil and gas industry and are subject to normal industry credit risk.

14. SUBSEQUENT EVENTS

On January 22, 2004, the Company acquired crude oil and natural gas assets that produce approximately 580 barrels of oil equivalent per day of production for approximately $23 million. The acquisition included working interests in existing Company operated producing properties, gas processing facilities, infrastructure and undeveloped land.

As a result of completion of the above mentioned acquisition, the Company renegotiated its credit facilities as described in note 6.

On February 2, 2004, the Company issued 4,250,000 common shares at a price of $4.50 per share for gross proceeds of $19.1 million.

CORPORATE INFORMATION

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Jerry M. Sapieha, CA
Vice President, Finance & CFO

James M. Saunders
President & CEO

DIRECTORS

Murray Cobbe

Ed Chwyl

Dennis Gieck

James M. Saunders

Warren Steckley

Harvey Trimble

STOCK EXCHANGE LISTING

The Toronto Stock Exchange (TSX)
Trading Symbol "GNL"

SOLICITORS

Burnet, Duckworth & Palmer LLP
Calgary, Alberta

AUDITORS

KPMG LLP
Calgary, Alberta

BANKERS

Bank of Montreal
Calgary, Alberta

REGISTRAR & TRANSFER AGENT

CIBC Mellon Trust Company
Calgary, Alberta

ABBREVIATIONS

ARTC	Alberta Royalty Tax Credit
bcf	Billions of cubic feet
bcfe	Billions of cubic feet equivalent
boe	Barrels of oil equivalent
boe/d	Barrels of oil equivalent per day
bbls	Barrels of oil or natural gas liquids
bbls/d	Barrels per day
CDN$	Canadian dollar
GJ	Gijajoules
GJ/d	Gijajoules per day
mmbtu	Millions of British Thermal Units
mmbtu/d	Millions of British Thermal Units per day
mbbls	Thousands of barrels
mmbbls	Millions of barrels
mmcfe/d	Millions of cubic feet equivalent per day
mboe	Thousands of barrels of oil equivalent
mcf	Thousands of cubic feet
mcf/d	Thousands of cubic feet per day
mmcf	Millions of cubic feet
mmcf/d	Millions of cubic feet per day
mstb	Thousand stock tank barrels
NGL's	Natural gas liquids
OPEC	Organization of Petroleum Exporting Countries
TSX	Toronto Stock Exchange
WTI	West Texas Intermediate
US$	United States dollar
3D	Three dimensional

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